COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE FUEL FLEX TARIFF OF WESTERN KENTUCKY GAS COMPANY) CASE NO. 89-354

O R D E R

On February 21, 1990, the Commission entered its Order in the instant case approving the use of flexed transportation rates for Western Kentucky Gas Company ("Western") on an interim basis pending a hearing on certain issues of concern. At the hearing on June 28, 1990, Western was asked to support the reasonableness of its proposal to share the amount of flexing on an equal basis between ratepayers and shareholders, and to clarify its proposed use of variable cost as the minimum amount or "floor" of a flexed transportation rate.

Western's position prior to and at the time of the hearing was that flex transportation volumes constitute a benefit to all other customers in that some amount of revenue would be collected from customers who had the ability and intention to switch to an alternate fuel. As an "incentive" to Western to flex its transportation rates to retain this load and the corresponding revenue contribution, it proposes an equitable sharing mechanism to evenly divide any flex transportation revenues between ratepayers and shareholders. It also suggested that a reasonable "floor" might consist of a D-2 demand charge component and a take-or-pay component, plus the cost of any lost and unaccounted for gas associated with the customer's purchase.

The Attorney General ("AG"), an intervenor in this case, renewed at the hearing his continuing objection to flex transportation rates due to the possible shift in revenue responsibility from transportation customers to the other ratepayers.

After consideration of the record in this case and being otherwise sufficiently advised, the Commission finds that:

1. In its Order in Case No. 90-013,[1] the Commission granted Western's proposal to continue including some portion of non-commodity gas cost in transportation rates. This being the case, the "floor" or minimum flex transportation rate should be set at the full non-commodity component proposed by Western and found by the Commission to be a reasonable allocation of demand and take-or-pay costs to transportation customers. All revenues collected at this minimum rate should continue to be flowed back through the gas cost adjustment as is currently the case.

2. With each sale of flex transportation service contributing the same amount of demand cost recovery as a sale of transportation service at the tariffed rate, a 50-50 sharing of any additional revenue recovery between shareholders and ratepayers is not reasonable. The remaining ratepayers should not

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[1] Case No. 90-013, Rate Adjustment of Western Kentucky Gas Company, Order dated September 13, 1990.

be expected to make a further contribution toward Western's margin than the amount found reasonable in their approved rate design, and there should be no sharing of additional revenues of any amount that Western is able to collect toward its margin that is over and above the transportation rate's non-commodity component. Western's proposal to share recoveries or losses resulting from flex transportation sales should, therefore, be denied, with the issue of recovery of lost margins to be explored in Western's next general rate proceeding. To the extent that Western can collect the minimum rate but no more from a flexing customer, the Commission expects this amount of gas cost recovery for the benefit of the remaining customers to be sufficient incentive for Western to make the sale at that price.

3. Western should file with this Commission a monthly report stating the name of each customer for whom transportation rates have been flexed, that customer's alternate fuel, the volumes delivered at the flex rate, and the amount of the flex rate.

4. Western should file a revision to the alternative fuel flex provision of its General Transportation Tariff Rate T-2 setting the minimum transportation rate at the non-commodity component of the transportation rate under which the customer would ordinarily be served.

5. By motion filed September 11, 1990, the AG requested the Commission strike the memorandum filed by Western on September 4, 1990 or in the alternative allow the AG 30 days within which to respond. After reviewing the motion and Western's memorandum, the Commission finds the AG's grounds to be sufficient to warrant striking the memorandum. Western's memorandum filed September 4, 1990 should, therefore, be stricken.

IT IS THEREFORE ORDERED that:

1. The Commission's Interim Order of February 21, 1990 is hereby affirmed and given final approval effective with the date of this Order.

2. The minimum flexed transportation rate shall be the non-commodity component of each customer's applicable transportation rate.

3. The full collection of the non-commodity component shall be credited back to gas cost recovery through Western's gas cost adjustment. Any revenues collected above this amount shall be considered contributions toward Western's margin, with recovery of the full margin to be examined in Western's next general rate proceeding.

4. Within 30 days of the date of this Order, Western shall file with this Commission its revised tariffs as approved herein.

5. Western's memorandum of September 4, 1990 be and it hereby is stricken in its entirety.

Done at Frankfort, Kentucky, this 18th day of September, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director